BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

JULY 29, 1999

IN RE:	)	
	)	
UNITED CITIES GAS COMPANY'S	)	**DOCKET NO. 98-00742**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)	

ORDER ADOPTING ACA AUDIT REPORT OF AUTHORITY'S STAFF

This matter came before the Tennessee Regulatory Authority (hereafter the "Authority") at a regularly scheduled Authority Conference held on May 18, 1999, for the consideration of the report of the Authority's Energy and Water Division (hereafter the "Staff") resulting from the Staff's audit of United Cities Gas Company's (hereafter "United Cities" or the "Company") annual deferred gas cost account filing for the year ended June 30, 1998. The ACA Audit Report (hereafter the "Report"), attached hereto as Exhibit A, contains the audit findings of the Staff, the responses thereto of United Cities, and the Staff's recommendations to the Company in addressing the findings. As stated in the Report, the Company agreed with each of the Staff's findings. The Company's initial filing indicated an over-recovery of gas costs in the amount of $3,451,376. The net effect of the Staff's audit findings, however, reduced the Company's over-recovery by $587,033. Therefore, the correct ACA balance at June 30, 1998, is an over-recovery of $2,864,342.

After consideration of the Report, the Authority unanimously approved and adopted the findings and recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

1. The ACA Audit Report is approved and adopted, including the findings and recommendations contained therein.

2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from the date of this Order.

Melvin J. Malone, Chairman

H. Lynn Greer, Jr., Director

Sara Kyle, Director

ATTEST:

K. David Waddell, Executive Secretary

COMPLIANCE AUDIT REPORT

OF

UNITED CITIES GAS COMPANY

ACTUAL COST ADJUSTMENT

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

MAY, 1999

EXHIBIT A

COMPLIANCE AUDIT

UNITED CITIES GAS COMPANY

ACTUAL COST ADJUSTMENT

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I. STAFF CONCLUSIONS AND RECOMMENDATIONS

The Staff concludes that, except for the findings detailed in this report, the Purchased Gas Adjustment mechanism as calculated in the Actual Cost Adjustment appears to be working properly and in accordance with the TRA rules for United Cities Gas Company (Company).

The Company made its Actual Cost Adjustment (ACA) filing for the Union City, Tennessee service area and Tennessee service areas other than Union City on September 11, 1998. This ACA filing showed $65,149,831 in total gas costs, with $76,573,149 being recovered from customers through rates. Adding a beginning balance in the ACA account of $7,597,990 in unrecovered gas costs from the preceding ACA period and interest due from customers for the current period of $373,953 resulted in an ACA balance at June 30, 1998 of $3,451,376 in overrecovered gas costs. The Company began refunding this amount to its customers on October 1, 1998.

The Staff's audit showed total gas costs of $65,664,566, with $76,509,678 being recovered from customers through rates. Thus, total interest due from the customers for the period is $382,780. And the adjusted ACA balance at June 30, 1998 is $2,864,342 in overrecovered gas costs. The results of the Staff's audit was a **net underrecovery of $587,033** for the audit period. The effect was to decrease the amount of the overrecovery by this amount. A detail of the ACA account and the Staff's findings is found under **ACA Findings** on page 2 of this report.

After the Staff's adjustments, the Company's total gas costs incurred for the ACA period under audit totalled $65.7 million. The **$587,033 underrecovery** calculated by the Staff is less than one percent of the total gas purchases and is not considered material in comparison. Ordinarily the Staff recommends that any over or underrecovery be placed in the Refund Due Customers account. However, United Cities Gas Company customarily makes an adjustment to the Deferred Gas Cost account in the following audit period. The Staff concurs with this method.

II. ACA FINDINGS

As outlined above, the result of the Staff's audit was a **net underrecovery of $587,033**, which had the effect of decreasing the Company's overrecovery balance in the ACA account by this amount. A summary of the ACA account as filed by the Company and adjusted by the Staff is shown below, followed by a detail of each finding.

SUMMARY OF THE ACA ACCOUNT:

	Staff	Company	Difference (Findings)
Beginning Balance at June 30, 1997	$ 7,597,990	$ 7,597,990	$ 0
Plus Gas Costs	65,664,566	65,149,831	514,735
Minus Recoveries	76,509,678	76,573,149	-63,471
Ending Balance before Interest	$ -3,247,122	$ -3,825,328	$ 578,206
Plus Interest	382,780	373,953	8,827
Ending Balance at June 30, 1998	$ -2,864,342	$ -3,451,375	$ 587,033

SUMMARY OF FINDINGS:

				See page
FINDING #1	Union City - Commodity	$ 620	overrecovery	3
FINDING #2	Union City Commodity Recovery	862	overrecovery	4
FINDING #3	All Other Towns - Commodity	515,355	underrecovery	5
FINDING #4	All Other Towns Commodity Recovery	14,019	underrecovery	7
FINDING #5	All Other Towns Demand Recovery	50,314	underrecovery	8
FINDING #6	Interest on Account Balance	8,827	underrecovery	9
	Net Result	**$ 587,033**	**underrecovery**	

FINDING #1:

Exception

The Staff calculated an **overrecovery of $620** in the commodity costs for the Union City filing.

Discussion

In order for the gas used by the Company to be credited to the deferred gas cost account, the Company must calculate the average cost of gas for each month. The Company neglected to calculate this average cost for months after September, 1997. Instead, they continued to use the average cost of gas for the month of September. The net result was an overrecovery of $620 for the months October, 1997 through March, 1998.

Company Response

The Company agrees with this finding.

FINDING #2:

Exception

The Staff calculated an **overrecovery of $862** in the commodity recoveries for Union City filing.

Discussion

For the month of July, 1997, the Company used incorrect volumes in calculating the amount of recoveries. The difference of 3,000 CCF times the recovery factor of $0.2873 resulted in an overrecovery of $862.

Company Response

The Company agrees with this finding.

FINDING #3:

Exception

The Staff calculated an **underrecovery of $515,355** in the commodity costs for All Tennessee Towns Other Than Union City filing.

The Company made errors in the following areas:

3A	Gas Used By Company	$	2,308	Overrecovery
3B	Tennessee Gas Pipeline Transportation Commodity		42	Underrecovery
3C	East Tennessee Natural Gas Transportation Commodity		591	Underrecovery
3D	LNG Transportation Commodity		1	Overrecovery
3E	East Tennessee Natural Gas and Texas Eastern Transmission Spot Market		70,729	Underrecovery
3F	East Tennessee Natural Gas and Texas Eastern Transmission Spot Market		43,870	Underrecovery
3G	East Tennessee Natural Gas and Texas Eastern Transmission Spot Market		386,456	Underrecovery
3H	East Tennessee Natural Gas, Tennessee Gas Pipeline Storage, Southern and Columbia Gulf commodity		3,807	Underrecovery
3I	Storage Injections		13,027	Underrecovery
3J	Storage Withdrawals		858	Overrecovery
	Net Result	$	515,355	Underrecovery

Discussion

3A The Company failed to calculate the average cost of gas for the months after September, 1997. See discussion under Finding #1.

3B Commodity costs for this filing must be prorated between customers in Tennessee and customers in Virginia based on the percentage of gas deliveries to Tennessee and Virginia. The Company incorrectly calculated the Tennessee commodity allocation percentage for July, October, and December, 1997.

3C The Company incorrectly calculated the Tennessee commodity allocation percentage for July, October, and December, 1997. See discussion for Finding #3B.

3D The Company incorrectly calculated the Tennessee commodity allocation percentage for October, and December, 1997. See discussion for Finding #3B.

3E The Company incorrectly calculated the Tennessee commodity allocation percentage for July, October, and December, 1997 and January, April, May, and June, 1998. See discussion for Finding #3B.

3F The Company failed to book Woodward invoice charges to the ACA, for August, 1997.

3G The Company failed to book an ERI invoice charge to the ACA, for June, 1998.

3H The Company incorrectly calculated the Tennessee commodity allocation percentage for July, October, and December, 1997 and January, April, May, and June, 1998. See discussion for Finding #3B.

3I The Company incorrectly calculated the Tennessee commodity allocation percentage for July and October, 1997 and January, April, May, and June, 1998. See discussion for Finding #3B.

3J The Company incorrectly calculated the Tennessee commodity allocation percentage for October, 1997 and January, April, and May, 1998. See discussion for Finding #3B.

Company Response

The Company agrees with this finding.

FINDING #4:

Exception

The Staff calculated an **underrecovery of $14,019** in the commodity recoveries for the All Tennessee Towns Other Than Union City filing.

Discussion

For the months of November and December, 1997, the commodity recoveries were overstated by a net $14,019. The Company included UCAR transportation volumes in the recovery calculation in error.

Company Response

The Company agrees with this finding.

FINDING #5:

Exception

The Staff calculated an **underrecovery of $50,314** in the demand recoveries for the All Towns Other Than Union City filing.

Discussion

For the months October, 1997 through June, 1998, the demand recoveries were overstated by a net $50,314. A customer switched from 240 sales to transportation in October, 1997, but the Company continued to use its volumes in the recovery calculation.

Company Response

The Company agrees with this finding.

FINDING #6:

Exception

The Staff calculated an **underrecovery of $8,827** in the interest calculation on account balances for both ACA filings.

The following corrections were made to the interest calculations:

6A	Union City filing		$ (101)	overrecovery
6B	All Other Towns filing		8,928	underrecovery
		Net Result	$ 8,827	underrecovery

Discussion

6A The Staff recalculated interest on account balance based on Findings #1 and #2.
6B The Staff recalculated interest on account balance based on Findings #3 through #5.

Company Response

The Company agrees with this finding.

III. JURISDICTION AND POWER OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) §65-4-104 gave jurisdiction and control over public utilities to the Tennessee Public Service Commission. By virtue of Chapter 305 of the Public Acts of 1995, jurisdiction and control over public utilities was transferred from the Tennessee Public Service Commission to the Tennessee Regulatory Authority (the "TRA" or "Authority") on July 01, 1996. T.C.A. §65-4-104 states that:

> The Authority shall have general supervision and regulation of, jurisdiction, and control over, all public utilities...

T.C.A states further in §65-4-111 that the public utilities are to maintain a Uniform System of Accounts:

> The Authority shall have the power after hearing, upon notice, by order in writing to require every public utility... to keep its books, records, and accounts so as to afford an intelligent understanding of the conduct of its business, and to that end to require every public utility of the same class to adopt a uniform system of accounting. Such system shall conform, where applicable to any system adopted or approved by the Interstate Commerce Commission of the United States. And to furnish annually, or at other times as the Authority may require, a detailed report of finances and operations as shown by said system of accounts.

The TRA responded to T.C.A. §65-4-111 by establishing its own rule 1220-4-1-1.11 regarding the uniform system of accounts which public utilities should maintain. The TRA's rule provides:

> The following uniform system of accounting will be followed by utilities and other companies making periodic reports to the Authority:
>
> 1. For Classes A and B gas companies - Uniform System of Accounts as adopted by the National Association of Regulatory Utility Commissioners as revised June 30, 1972, and any amendments or revisions pertaining thereto.

The TRA received its authority to examine the books and records of public utilities from T.C.A. §65-4-105 which states that the TRA would possess all the other powers conferred on the TRA. T.C.A. §65-3-108 gives the TRA:

> full power to examine the books and papers of the said companies, and to examine, under oath, the officers, agents, and employees of said companies...to procure the necessary information to intelligently and justly discharge their duties and carry out the provisions of this chapter and chapter 5 of this title.

IV. PURPOSE OF COMPLIANCE AUDITS

The two basic reasons for compliance audits are to assure compliance with the Uniform System of Accounts (USOA) and to assure that the utility is following all rules, regulations and directives adopted by the TRA.

Compliance audits provide the foundation of assurance underlying the basic objective of regulatory accounting, which is to provide a uniform method of recording transactions among similar companies. This uniform record keeping is accomplished through the adoption of the USOA and insures the integrity, reliability, and comparability of the financial data contained in financial reports filed with the TRA, which provides the TRA with one of its most useful regulatory tools for establishing just and reasonable rates.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT (PGA) RULE

The Tennessee Regulatory Authority issued an Order in Docket No. G-86-1, which adopted a new PGA rule beginning July 1, 1992. The PGA Rider is intended to permit the Company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect gas costs from its customers. This PGA consists of three major components:

1) **The Actual Cost Adjustment (ACA)**
2: **The Gas Charge Adjustment (GCA)**
3) **The Refund Adjustment (RA)**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds.

For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A, page 14.

VI. AUDIT TEAM

The TRA's Energy and Water Division is responsible for conducting ACA audits. This audit was conducted by Pat Murphy of the Energy and Water Division.

VII. OBJECTIVE AND SCOPE OF AUDIT

The order for Docket G-86-1 required that the Company

> each year...shall file with the Authority an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the Authority provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of this Rule...

The Company submitted its ACA filing on September 11, 1998. On February 10, 1999, the TRA Staff requested an extension of the 180 days to April 20, 1998. On April 12, 1999, the Company requested a further extension to May 20, 1998 in order to complete its responses to the Staff's data requests.

The objective of this audit was to determine that Purchased Gas Adjustments, which are encompassed by the ACA and were described earlier, approved by the TRA during the period from July 1, 1997, to June 30, 1998 had been calculated correctly and were supported by appropriate source documentation. To accomplish this task, the Staff conducted in-house audit work during which the Company's calculations of gas costs incurred and gas costs recovered were verified.

In order to determine whether the proper PGA rates were applied in the Company's calculation of customer bills, the Staff audited a sample of customer bills. Since the Company's billing process is computerized, the Staff decided to test a sample of 245 bills. These bills were selected to be representative of the residential, commercial, industrial and interruptible customers in each of the Company's service areas. The sample was selected from the twelve month period July, 1997 through June, 1998. After recalculating each sample bill, the Staff was in agreement with the Company's calculations in deriving the amount on each bill. Therefore, the Staff contends that, as a result of this sample, the Company is correctly calculating its bills to all customers.

The Staff's last ACA audit of United Cities Gas Company was conducted in 1998 covering the period July 1, 1996 to June 30, 1997.

VIII. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

United Cities Gas Company (UGC or Company), a Division of Atmos Energy Corporation, located at 810 Crescent Centre Dr., Suite 600, Franklin, Tennessee, is a multistate gas distributor. The Company provides service to customers in twelve cities in Tennessee. The natural gas used to serve these areas is purchased from four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission (FERC). The interstate pipelines are Tennessee Gas Pipeline (TGP), East Tennessee Natural Gas (ETNG), Texas Gas Transmission Corporation (TGTC), and Texas Eastern Transmission Corporation (TETC).

TGP and ETNG provide service to east Tennessee towns, which include Columbia, Shelbyville, Maryville, Morristown, Elizabethton, Greeneville, Johnson City, Kingsport, Bristol and adjacent areas in Maury, Bedford, Moore, Blount, Hamblen, Sullivan, Carter, Washington, and Greene Counties.

TETC provides service to UCG in Murfreesboro and Franklin and adjacent areas in Rutherford and Williamson Counties.

TGTC provides service to UCG in Union City and adjacent areas in Obion County.

APPENDIX A

PGA FORMULA

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR\ CACA}{ST} - CB$$

where

GCA	=	The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
D	=	The sum of all fixed Gas Costs.
DACA	=	The demand portion of the ACA.
P	=	The sum of all commodity/gas charges.
T	=	The sum of all transportation charges.
SR	=	The sum of all FERC approved surcharges.
CACA	=	The commodity portion of the ACA.
DB	=	The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
CB	=	The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
SF	=	Firm Sales.
ST	=	Total Sales.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA =	The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
DR1 =	Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
DR2 =	A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR1 =	Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
CR2 =	A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR3 =	The residual balance of an expired Refund Adjustment.

i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.